

Bob Riley
GOVERNOR



State of Alabama

Bill Johnson
DIRECTOR

January 6, 2009

Mr. Charles Franklin
CPD Director
U.S. Department of Housing and Urban Development
Birmingham Office Region IV
Medical Forum Building, Suite 900
950 22nd Street, North
Birmingham, Alabama 35203-5301

Dear Mr. Franklin:

RE: Neighborhood Stabilization Program

We received your December 30, 2008, letter rejecting approval of Alabama's Substantial Amendment to the Program Year 2008 Consolidated Plan and the CDBG Action Plan for administration of the Neighborhood Stabilization Program (NSP). Frankly, we are both puzzled and disappointed by this HUD action. It would appear that the phone conversation between my staff and HUD officials including yourself on December 30, 2008, would have, at a minimum, caused HUD to delay its action.

It is our understanding HUD would like States to target all funds to priority communities which, in the case of Alabama, are seven (7) entitlement communities. However, Title III of the Housing and Economic Recovery Act of 2008, as well as HUD's own Federal Register Notice, clearly states, "Any State... in distributing such amounts give priority emphasis and consideration to those metropolitan areas, metropolitan cities, urban areas, rural areas, and low-moderate-income areas, and other areas with...." We interpret this requirement to mean the State's method of distribution should be inclusive even as it identifies priority areas. Additionally, at the NSP conference in Orlando, HUD's presentation was extremely specific about including rural areas. Our Substantial Amendment identifies seven (7) priority communities and several qualifying communities comprising twenty percent (20%) of all units of local government. Alabama utilized HUD data to rank communities, but gave other communities an opportunity to identify their needs as well. We believe if the intent of Congress and HUD was to target funds only to highest priority communities based on HUD data, then HUD would have done so or instructed States to do so with significant savings of time and resources. The October 6, 2008, Federal Register, in part states "States may define... and will be given maximum feasible deference...."

We operated under the recognition that the HUD compiled data was important in identifying priority and qualifying communities, but it would be a mistake to assume that the HUD data alone can completely explain the full extent of the problem with the foreclosure and subprime loans. Since the State was unable to identify any consistent data beyond the HUD data, the State wanted to give the opportunity to communities to explain their needs and present data that may not have been reflected by the limited HUD data. This approach did not entitle them to any funds, rather it allowed the State to consider needs in communities that may have gone unaddressed by using a single-source of data.

Alabama's Substantial Amendment incorporates additional components we believe are extremely important as well. We do not want the State's distribution to appear to be an entitlement; instead, we propose competition to seek out the best projects from priority and qualifying communities. Our system encourages and seeks capacity, impact, and cost effectiveness as important considerations in our project evaluation. This system has served us well with our regular CDBG program where we use limited CDBG dollars to accomplish as much as possible.

Recognizing the urgency of the foreclosure problem and the extremely tight program timeline, Alabama, similar to other States, has already accepted pre-applications and completed significant reviews. We received a total of fifty-two (52) applications requesting over \$272 million in NSP funds. Our preliminary reviews have already identified twenty-four (24) projects with a total request of approximately \$124 million as not meeting State objectives in terms of capacity or addressing redevelopment of abandoned and foreclosed homes in a significant manner. Of the remaining applications, we still have sixteen (16) proposals requesting approximately \$75 million for projects in priority communities alone. This is more than twice the amount of funding available for distribution in Alabama. In short, we are extremely confident that, upon completion of our review process, the majority of Alabama's funds will go to projects in priority communities.

We request, and are hopeful, that HUD will reconsider its decision about Alabama's Substantial Amendment in light of the information presented above. As you yourself will attest, Alabama went through an exhaustive citizen participation process, above and beyond what was required; and we fear any ruling on HUD's part which appears arbitrary and/or capricious will be viewed negatively by the public. My staff and many communities and nonprofit organizations have expended countless hours to make the most of this program.

Thank you for your cooperation. Please do not hesitate to call me if you have any questions or need additional information.

Sincerely,



Bill Johnson
Director

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c: The Honorable Bob Riley, Governor